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Preparing for MiFID II

Managing regulatory change

*Helping you respond to
market reform*



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Are you getting ready yet?

The outcome of the review of the Markets in Financial Instruments Directive (MiFID II) will be burdensome for those operating in the European securities markets, but could also deliver unexpected opportunities. This will impact all areas of your business, and will be a major change programme instead of just a compliance exercise. Trading models will need to be redesigned and impacts on your business strategy assessed. Preparing early should overcome major threats, optimise strategic benefits and minimise the cost of compliance.

This is no compliance exercise - it will change your business

Why is MiFID II so important?

MiFID II will drive fundamental changes in the European securities markets, in parallel with developments underway in the United States and globally. MiFID II builds on the initial MiFID Directive to promote further competition in the European securities market, modernise market structures, increase market transparency, reduce data fragmentation, enhance investor protection and harmonise the regulatory regimes within different EEA jurisdictions. It will also extend the MiFID regime from primarily focusing on equities, to increased requirements for other product classes, including OTC derivatives and fixed income products, and will cover a broader range of trading venues.

It will be supplemented and reinforced by other regulatory changes, such as the new regulations on OTC, central counterparties, and trade repositories (EMIR), on short-selling and credit default swaps (short-selling & CDS) and on central securities depositories (CSD), together with upcoming reviews of the Market Abuse Directive (MAD) and the Securities Law Directive (SLD).

Who will be impacted?

Everyone operating in the securities markets – whatever their role will be affected. The impact in terms of time, effort and associated costs will vary, but no-one is immune. This will impact on:

- Broker dealers (sales and trading)
- Investment banks and corporate finance houses
- Market infrastructure providers (e.g. trading platforms, data aggregators/ disseminators)
- Buy-side firms (traditional asset managers and hedge funds)
- Wealth management firms
- Custodians
- Energy and other commodities players

How will MiFID II impact your business?

MiFID II will have a significant impact across the whole securities value chain, from front-office sales and trading, through to back-office reporting and all points in between. Further, the way you interact with your clients and other market participants is also likely to change radically. The European Commission's (EC) consultation paper, issued on 8 December last year, provided key insights into the extent of the changes (see figure 1).

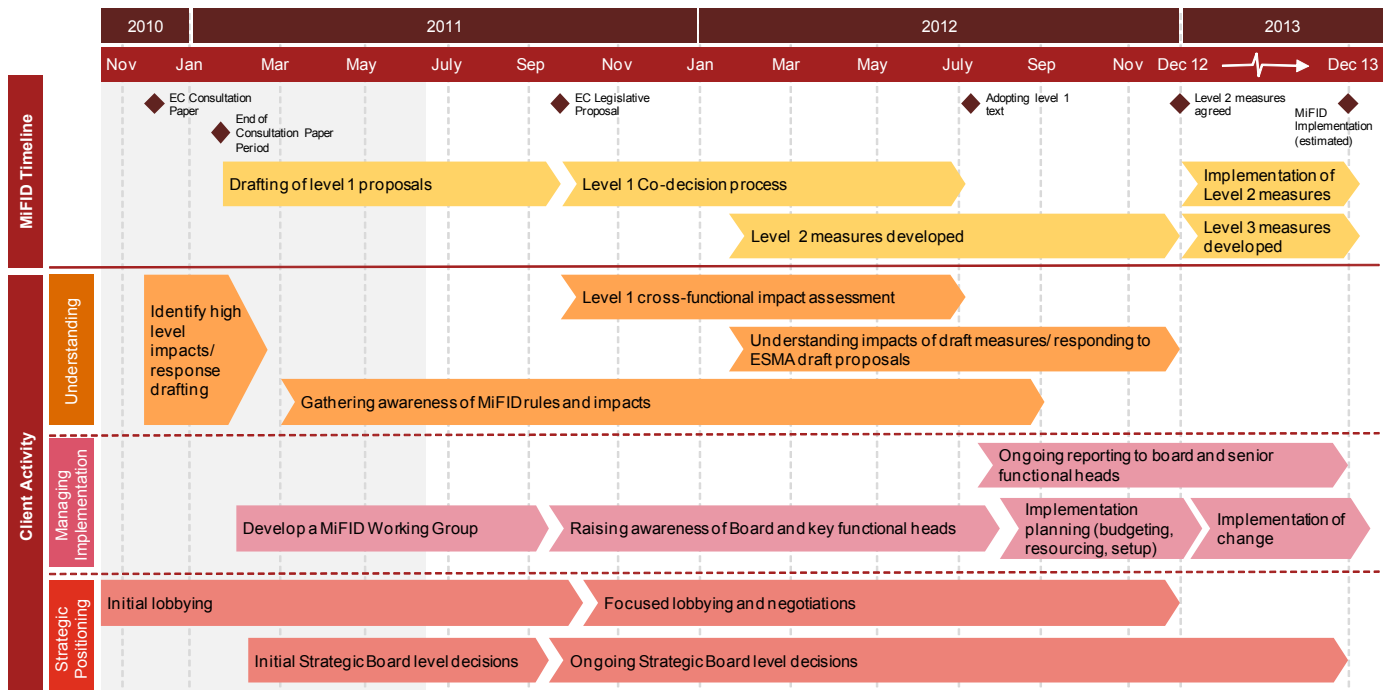
Figure 1: Extensive impact on your business

Change Management Programme (Communication, training, PMO)	Business strategy	Trading facilities	Automated trading and high frequency trading	Execution-only trading	Crossing systems and dark pools	Market data access and provision
		Equity business	Non-equity business	Derivatives business	Commodities business	SME business
	Governance arrangements	Board mandate re internal controls staff		Oversight of new products		Equity business
		Reporting lines for Compliance, Risk and Internal Audit		Portfolio management and investment policies		Board fitness and propriety
	Processes, policies and procedures	Crossing systems	Trade execution	Execution-only trading	Market data access/provision	Trading of emission allowances
		OTC derivatives trading	Conflicts of interest	Transaction reporting	Structured deposits business	Client reporting
		Trading facilities (MTFs, SIs, OTFs)	Inducements	Pre and post trade transparency	Client categorisation	Investment advice and suitability
		Automated/high frequency trading	Direct sales	Terms of business	Client assets	Underwriting and placing
	Systems/ Technology	Transaction reporting	Client take-on systems	OTC derivatives trading	Market Data access/provision	
		Automated trading systems	Systems architecture for trading facilities (MTFs, SIs, OTFs)	Systems architecture for crossing systems	Pre and post trade transparency and consolidated tape	

What are the MiFID II timelines?

The timetable is not yet clear but G20 commitments are pushing for rapid changes. The EC is expected to issue its formal legislative proposals in October 2011 and the new regime could come into play as early as 2013.

Figure 2: Timeline and high level roadmap



Source: PwC

What should you be doing today?

Although we have to wait for the specifics, the general orientations of the reform are clear and you can start to get to grips with it now. Over the coming months, you should consider MiFID II in light of the following:

- **Strategy:** identify any business threats and strategic opportunities
- **Revenue impacts:** determination of revenue/business structure impacts
- **Governance:** establish an internal framework to co-ordinate initial activity and get the right people involved
- **High level planning:** gauge key timings and “must do now” activities plus early indicative IT budgeting
- **Regulatory priority:** look for interdependencies with other regulatory changes to prioritise key work-streams and identify implementation efficiencies
- **Public policy:** link business impact analyses into public/lobbying policy
- **Education:** deliver knowledge of the changing landscape early

PwC can help

We can mobilise the broad range of expertise that you are going to need to tackle MiFID II, and can support you along its full spectrum, across countries in Europe and more widely. We know MiFID, having helped a range of financial firms implement the original regime, and are experienced in conducting major, geographically diverse, change programmes. We can also provide you with access to tried and tested methodologies and tools that will help you:

- Understand the proposals
- Identify interdependencies with other key regulations
- Assess the impact of the rules on your strategic priorities and your operations
- Capture the strategic opportunities and minimise any resultant threats
- Implement enhanced and compliant processes and procedures
- Enhance your business processes, technological systems and infrastructure
- Deliver sustainable change

For more information on the MiFID Review please visit:
www.pwc.com/mifid

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